

## **THE OAKLAND UNIFIED SCHOOL DISTRICT'S BROKEN ADMINISTRATIVE CULTURE – MILLIONS WASTED EVERY YEAR**

### **EXECUTIVE SUMMARY**

For years, the Grand Jury has reported on the Oakland Unified School District's (OUSD) financial woes and academic struggles. Blame has been spread in many directions: declining enrollment, charter schools, inequitable funding and so on.

This year, the Grand Jury received eight complaints from within the walls of OUSD, each challenging the common belief that the school district was struggling because of outside pressures. Together they alleged that abandoned policies and procedures, misguided priorities and poor business practices have greatly contributed to a broken administrative culture that thrives on dysfunction and self-interest.

Outlined in the complaints and confirmed by the testimony of over twenty witnesses, the Grand Jury was presented with example after example supporting the conclusion that the district's poor business practices and broken culture have greatly contributed to its financial instability. For example, within the facilities department, constantly changing priorities left the district without a facilities master plan, contributing to a district full of under-enrolled schools. Poor financial stewardship of the district's nearly billion dollar bond program coupled with unnecessarily costly policies that do not directly benefit students have left OUSD with little to show in the way of completed school projects. District-wide, decentralized procurement with lax competitive bidding practices have led to overspending and waste. Finally, within management ranks, self-interested decisions by midlevel staff and repeated breakdowns in the chain of command without anyone being held accountable has helped perpetuate all of this dysfunction.

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OUSD certainly has greater financial needs than many surrounding districts, but state data shows that it also receives considerably more money than surrounding districts. OUSD received \$562 million in General Fund revenues in Fiscal Year (FY) 2017-2018 or \$16,154 per student, which ranked sixth among 37 local school districts. Total spending was \$532 million or \$15,269 per student, which ranked seventh. An analysis of spending revealed that OUSD expenses that directly affect students in the classroom (teachers' total compensation, local administrative and support staff, pupil services and books and supplies) were either near or far below the median

of the 37-district sample and state averages. However, spending on activities other than the classroom (central staff and administration, contractors and services) were above or far above the median of the 37-district sample and state averages. OUSD's extra spending per student was \$2,726 over the median spending for the same sample. This translates into total extra spending for OUSD of \$95 million per year.

While the district is large and complicated to run, it is struggling to survive financially, in part, because district leadership has not committed to a long-range, comprehensive strategic plan, implemented using sound financial practices. All too often, policies and procedures have fallen by the wayside and administrative staff who are frequently undertrained in best practices make decisions that are not in the best interests of the school district.

## **BACKGROUND**

OUSD serves 36,000 students at 87 traditional public schools throughout Oakland. Its FY 2018 General Fund expenditures were \$531 million. Each district within the city elects a representative to the seven-member Oakland Unified School District Board of Education (Board). The average tenure among the current board members is six years.

The Board has responsibility for policy direction, budget approval, and hiring and firing the school superintendent. The superintendent has responsibility for implementing board policy and running day-to-day operations of the district, including hiring a core team of senior leaders to manage academic, financial, operations and facilities functions.

While Board membership has been comparatively stable, there have been nine OUSD school superintendents since 2003 – a new one every 18 months on average. This lack of continuity is in many ways connected to the district's long-term financial instability. The previous superintendent left the district's finances in shambles. Before OUSD settled its teacher strike this last spring, the state's school fiscal oversight organization estimated that OUSD faced a \$9 million deficit in FY2018-2019, \$6.4 million next year and \$15.7 million the following year.

The strike settlement will certainly add to the district's financial struggles. The Grand Jury confirmed that teacher raises will cost the district \$65 million over four years. This required the Board to identify \$21.7 million in cuts and revenue enhancements to ensure the district maintains state mandated reserves. The Board promised somewhat similar raises to other staff. The Alameda County Office of Education (ACOE) warned that such a decision would likely threaten the district's financial stability. If a deal is struck similar to that of the teachers, it could cost an additional \$46 million over the same four-year period.

The district's longstanding inability to manage its finances led the state to adopt Assembly Bill 1840 last September. The bill promised to cover a portion of OUSD's deficits if the district met specific financial reform benchmarks by March 1 of this year. Slow to respond, the Board did not meet all requirements by the deadline.

Ultimately, the Alameda County Office of Education, with the OUSD superintendent's support, embedded multiple top-level school finance experts within OUSD's business office. Simultaneously, the district announced it had dismissed its senior business officer and eliminated the position. The county team has already started to provide financial advice and training to the district's revamped fiscal team. They will help district staff transition to a new system for business, human resources and payroll that adds essential financial and staffing controls to all levels of the district.

## INVESTIGATION

The Grand Jury interviewed 21 witnesses including members of the Board, OUSD senior leaders, outside experts in school district management, and past and present district employees. Additionally, Grand Jurors attended and watched video broadcasts of board meetings. Hundreds of hours were spent reviewing board agendas and minutes, data on OUSD's website, and other publicly available data sources relevant to finance, school bonds, contracting, district policies, management practices, and decision-making. The results of the Grand Jury's investigation are summarized in six topical areas.

### Financial Analysis

To better understand OUSD's relative financial status, the Grand Jury compared the district's FY2017-2018 general fund revenue and expenses (prior to staff raises) to that of 37 local unified school districts and of statewide averages. The comparison is based on FY2017-2018 data collected by the State Department of Education from California's K-12 schools. Unless otherwise noted, all data in this analysis are from [Ed-Data.org](http://Ed-Data.org). More specific details are in Appendix A (page 52).

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OUSD's revenues were \$16,154 per student based on the district's average daily attendance (ADA) of 34,841 students. The median revenue per student for the 37 school districts sampled was \$11,869. Thus, OUSD received \$4,285 more revenue per pupil than the median district, placing it in the top five among all sampled school districts, and second highest among Alameda County's school districts. Table 1 lists total revenue per student for 14 school districts in Alameda County and six large nearby districts. Each district's rank among the 37 school districts is also indicated.

**Table 1 – Revenue per Student in Local School Districts FY2017-2018**

District	\$ Revenue	Rank	District	\$ Revenue	Rank
Oakland	16,154	5	Piedmont	15,577	7
Alameda	12,314	16	Pleasanton	10,753	32
Albany	13,124	12	San Leandro	11,869	19
Berkeley	16,774	4	San Lorenzo	12,429	15
Castro Valley	10,828	30	Mt. Diablo	11,604	21
Dublin	10,144	37	Palo Alto	20,508	1
Fremont	10,726	33	San Francisco	15,907	6
Hayward	13,359	9	San Jose	12,109	18
Livermore Valley	11,098	26	Santa Clara	17,764	3
Newark	11,130	22	W. Contra Costa	13,233	11

OUSD's total General Fund expenses were \$15,269 per ADA or \$3,252 more than the median district, ranking OUSD seventh among the 37 school districts. OUSD oftentimes invokes special education expenses as a major contributor to their financial problems. OUSD spent \$81 million on special education from its general fund. However, that spending per student in the special education program was only 23<sup>rd</sup> among the 37 districts.

After subtracting special education expenses for all 37 districts, OUSD spending still exceeded the median by \$2,726 per student, which based on the district's ADA, totals \$95 million in higher spending relative to the median spending of the 37 school districts.

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OUSD ranked 37<sup>th</sup> (last) on share of spending for certificated teacher salaries; 36<sup>th</sup> for pupil services (e.g., guidance counseling, health services, psychological and social workers); and 30<sup>th</sup> for books and supplies (spending only 74% of the statewide average).

By comparison, OUSD ranked fourth on the share of spending for contractors, consultants, and other outside services and third on the percentage of expenditures for administrative, technical and logistical support of teaching. These are central office expenses that are only indirectly related to classroom instruction.

OUSD spent over \$55.7 million on professional/consulting services and operating expenditures, which was three times the statewide average per student. OUSD's spending for classified

personnel (non-teachers) was 45% above the statewide average, and spending for supervisors and administrator salaries was more than six times the statewide average. In notable contrast, spending on teachers and credentialed administrators was only 4% above the statewide average.

Additionally, spending on total compensation (salaries plus benefits) for teachers and credentialed administrators was 9% above the statewide average while total compensation for classified personnel (non-teachers) was 51% above statewide averages.

This financial analysis demonstrates that OUSD consistently spends less on students and classroom needs and more (sometimes much more) on central staff, administrative programs, contracting and services.

## **Contracting Practices and Facilities Management**

Many of the complaints received by the Grand Jury were related to OUSD's Facilities Planning and Management Department (Facilities). Facilities is responsible for maintenance and custodial services for the district's 87 school sites and has oversight of the billion dollar school bond-funded construction program. While Facilities operates quasi-independently from the academic side of the district, its failed stewardship of local taxpayer dollars over the past decade provides a clear example of the district's inability to properly prioritize spending and produce results for the children of Oakland. Poor execution of construction projects, failure to take advantage of economies of scale, financially irresponsible policies and inconsistent use of financial controls all contributed to these disappointing results.

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### Facilities Master Plan

Facilities should play a key role in the district's strategic planning process by developing and executing a Facilities Master Plan (FMP). A master plan is essential to ensure that the district operates an appropriate number and geographic distribution of schools that are clean and safe spaces for OUSD's students.

An FMP should be the central guiding principle behind spending of the district's generous billion dollar voter-approved school construction bonds. Many schools need comprehensive updating. Many also need to be closed. Because of this, the district is especially in need of a comprehensive road map to direct these construction dollars. Yet the last Board-approved FMP was adopted in 2012. Three attempts to update the plan were either not completed or not adopted by the Board.

The previous superintendent cut the scope of many projects in the middle of planning, wasting critical dollars, and then added \$172 million in new projects. Years of second-guessing coupled

with constantly changing priorities stalled many of the 21 major projects promised in the language of a \$475 million school construction bond approved by voters in 2012 (Measure J).

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In August 2018, the Board halted work on nine building projects after being told that the district needed an additional unbudgeted \$160 million to cover cost overruns: Fremont High School was \$51 million over budget, the Central Kitchen project was \$18 million over, Glenview Elementary \$12 million, and the Madison expansion was \$9 million over budget. The overruns, combined with \$18 million for project coordination,

meant that new and renovated science classrooms and labs, playgrounds, security upgrades, and kitchens at many schools would not be built as promised.

### Consolidating Contracts and Economies of Scale

OUSD reviews and approves a burdensome number of contracts each month. Financial best practices are essential in the development of those contracts to ensure that scarce dollars are not wasted. A best practice is to consolidate contracts for similar services, which allows for economies of scale and consistent application of construction codes and design guidelines.

The Grand Jury is concerned that the district does not take advantage of consolidated contracts. After examining approved Facilities contracts in 2018, the Grand Jury found nine separate contracts with one firm for fire alarm support, six separate contracts to expand and replace alarm systems at different school sites, and three separate agreements to provide supervision of security installation at three different school sites. There were seven board actions which resulted in one firm being awarded contracts to work on five different projects with two additional amendments for previously awarded work. The practice of negotiating individual contracts for similar services at different school sites appears to be too common.

### Lease-Leaseback Construction Procurement

For decades California public contracting laws relied on competitive bidding rules to prevent fraud, corruption and cronyism and to ensure that public agencies were good stewards of public dollars. Yet the lowest responsible bidder is not always the most competent contractor. For this reason, the California Education Code allows an alternative method of project delivery. The lease-leaseback method of funding and building public schools allows districts to hire a design professional to create a basic plan, which is used to select a contractor to build the project for a set price. The contractor then takes possession of the property through a temporary lease agreement and is responsible for refining the plans and completing construction for the agreed-upon price.

This has not turned out so well for OUSD. By releasing projects before the full scope of construction is defined, budgets and schedules inevitably fall victim to frequent change order requests, unscheduled delays, and cost overruns. This lack of management discipline is emblematic of OUSD's broken administrative culture.

Glenview Elementary School is a current lease-leaseback project that has been before the Board eleven times since its inception in 2013. After the project's initial funding, the architect and the general contractor each requested five change orders for additional funds and time to complete the construction. The budget increased from \$26 million to \$37.4 million – a 43.8% increase. Glenview construction completion is scheduled for the end of 2019 with the opening of classrooms delayed until August 2020 – a full seven years after the project began. Compare this to a new middle school in San Francisco that was completed, from start of design to classes, in under three years.

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The district's attempt to build the Central Kitchen project is another failure. Its design began in 2013 and the general contractor was selected in August 2014 with an original project budget of \$23.2 million. In May 2016, the project's budget grew to \$41.8 million. Problems with the general contractor led the district to terminate the contract "for convenience" in March 2017, paying a penalty of almost \$5 million. The replacement developer was approved by the Board in January 2018 for the project's new guaranteed maximum price of \$43 million. On top of the construction cost is another \$1 million for three consultants: community outreach, site security, and non-construction project management.

### High Cost of Small and Local Business Program

In December 2008 the district implemented a small and local business utilization (LBU) program requiring 20% mandatory local participation on all OUSD construction contracts and professional service agreements related to capital projects. The purpose of the program is to "keep the dollars within Oakland" and enhance opportunities for small businesses within the district. In 2014, based on perceived success of the program, the Board increased the local participation requirement to 50%. While the program goals are commendable, the pool of local contractors who can fulfill large school construction projects is small. This has resulted in larger, non-local firms being awarded contracts but needing to sub-contract portions of the project to smaller, local companies. Ideally, there would be competitive bidding to select sub-contractors but there are often too-few local firms for a legitimate competitive process.

While one proponent of the 50% local participation requirement told the Grand Jury that it saves the district money because the workers are local, the Grand Jury heard testimony from six others who work with OUSD and have construction backgrounds contradicting any claim of savings.

They all agreed the small and local business requirement adds significant costs to construction projects. Their estimates of the additional costs ranged from 10% to 40%. Grand Jury concerns were validated after receiving documentation that Facilities' normal practice is to add a 30% premium for local business utilizations and project labor agreements when developing a project's budget. For example, district cost estimates showed that these programs would add \$990,000 to a \$6 million gym project, and \$320,000 to another \$1.6 million science classroom project. One witness testified that Glenview Elementary School cost OUSD an estimated \$900 per square foot, while constructing the same school in San Francisco would have cost about \$650-700 per square foot (22-28% less) in part because of the LBU requirement.

The Grand Jury learned that the city of Oakland operates a similar program but in contrast to OUSD, the city does not factor in a premium for the small and local business requirement in their project cost estimates. When construction bids come in 3% or more above city estimates, staff will reevaluate the bidding process and consider seeking council approval to waive the requirements.

Adding to the cost of this OUSD program, the district paid a consultant \$334,500 in 2018 to monitor the district's compliance with its own policy. The Grand Jury was told that this consultant uses information provided by district staff to prepare reports for the Board. The consultant does perform some community outreach; however, witnesses testified that the tasks performed by the consultant could be performed by district staff with minimal additional cost. This consultant has received over \$3 million in contracts from the district since 2008. While the Grand Jury is heartened by the district's recent decision to competitively bid out these monitoring contracts, the district should consider performing these tasks in-house.

#### Competitive Bidding – “The District of Exceptions”

OUSD's policies with respect to competitive bidding are spelled out in Board Policy (BP) and Regulation 3311:

*“Consistent with California law, the Governing Board requires competitive bidding for most public contracts. The purposes of competitive bidding are to secure economy in the construction of public works and the expenditures of public funds for materials and supplies, to protect the public from collusive contracts, to exclude favoritism and corruption, and to promote competition among bidders so as to ensure that all public contracts are secured at the lowest cost to District taxpayers.”*

With this policy in mind, the Grand Jury reviewed 395 contracts with a total value of nearly \$78 million that were approved by the OUSD Board between January – June 2018. Only 33 of the contracts, with a total value of \$12.5 million, were competitively bid. The Grand Jury sought to understand this apparent anomaly. One witness testified that OUSD has long been called “the district of exceptions.” The contract justification form has a checklist with fifteen different

exceptions to the competitive bidding requirements, and these exceptions are being widely used (sometimes inappropriately) to avoid competitive bidding.

The most frequently used competitive bid exception is for Professional Services Agreements (PSAs) that are less than \$87,800. Over the six-month period, the PSA exception was used to exempt 186 contracts worth \$4 million from competitive bidding. One witness verified this was a well-known exception that staff uses to avoid the competitive bidding requirement. The contract justification forms for 98 contracts the Grand Jury examined simply state, “Price compared with other vendors.” The Grand Jury’s review found 102 contracts or amendments with community-based organizations for \$3.6 million in after-school and summer-learning programs. Each was awarded without being competitively bid even though 84 contracts exceeded the PSA exception limit.

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Thirty-three other contracts, worth nearly \$8 million, applied the special services exception. This exception should only be applied to those contracts requiring a high degree of specialized skills defined as financial, economic, accounting, legal, or administrative services. It is difficult to conclude that a two-year \$4,118,572 contract for construction management services for the Measure J bond program and a \$150,000 contract to provide transportation services for special education students, and five other contracts for student enrichment programs properly fit under this exception.

The Grand Jury reviewed documentation supporting numerous complaints that certain vendors are awarded multiple contracts without ever going through competitive bidding. The small business program’s compliance consultant is one example. This consultant received 13 contracts worth a total value of over \$3 million without going through any competitive bidding. The Grand Jury found another instance of a consultant for project labor agreement oversight renewed annually for the last 16 years for a total value of over \$3 million with only two instances of bidding. Best practices would dictate that a formal bidding process be used at least every five years for every longstanding contract to ensure that the district is receiving competitive market pricing.

## Bond Money

Voter-approved bond measures often provide for the creation of citizen bond oversight committees (CBOCs). These committees ensure that funds are spent consistent with bond language. In recent elections, independent oversight has been featured prominently in the language of approved OUSD bond measures. Two CBOCs oversee different bonds issued by the district. One of the CBOCs oversees the spending of the bond funds from Measures A, B and J. In its August 2018 annual report, the committee expressed concerns regarding OUSD’s financial

reporting, Facilities' contracting practices, and the use of bond funds to pay rent for the district's central administrative offices at 1000 Broadway.

A little background may be helpful. The district's administration building suffered severe flood damage in January 2014. The administrative functions were initially relocated to several of OUSD's vacant properties. In January 2015, the functions were consolidated in leased office space at 1000 Broadway, a prime downtown location. The central offices are still located there after four years with the rent from bond funds totaling over \$12.5 million to date. The Board has been presented with actionable alternatives but failed to commit to any permanent relocation plan.

The CBOC and the state's Fiscal Crisis and Management Assistance Team (FCMAT), along with the external accountants who conducted the bond program management performance audit, have all questioned the legality of using bond funds to pay rent for the Broadway offices. OUSD's

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legal counsel has opined that such use of bond funds is within the scope of the bond measures. The supporting argument for Measure J in the Oakland voters' pamphlet made no mention of using the funds for anything other than school facilities. Language in the bond measure allows the use of bond funds for administrative buildings. However, these funds may only be used to pay rent for "temporary housing" if an approved plan is in place for a permanent location. To date, the Board has not approved any such plan, yet the Grand Jury heard testimony from OUSD staff in April that the district planned to continue to use bond funds to pay rent for 1000 Broadway. The district abandoned at least one relocation proposal after spending \$6 million, mostly on architect fees, city of Oakland fees, and some demolition costs.

Poor financial controls, uncontrolled project budgets, and misuse of school construction bond funds exhibit senior management's lack of discipline and damages the public trust.

## **Summer Internship Program**

Until 2017 Facilities sponsored a paid summer internship program, funded by donations from architects and contractors doing business with OUSD, enabling high school students to learn about the workplace. A terrific idea, especially when it helps students with compelling financial needs. However, Facilities was using a funding process that lacked transparency and gave the appearance of "pay-for-play."

The Grand Jury learned that in 2017 the selection panel of the summer program was made up of Facilities employees. They selected eleven high school students for the paid internship positions, three of whom were the children or relatives of the interview panelists, including the child of the OUSD employee managing the program. Such favoritism was troubling.

Adding to concerns, because district policy did not allow Facilities to pay the interns directly, an outside contractor employed and paid the interns, then invoiced the costs of the program (such as wages, hotels, meals, and travel from Washington, DC) back to Facilities, adding a markup for the contractor's administrative services. The Grand Jury was told that the OUSD employee managing the summer internship program signed off to reimburse the outside contractor without having the authority to do so. This was discovered by the program manager's supervisor who accused the employee of making a side deal with the contractor, having a conflict of interest by hiring his child, and attempting to reimburse a vendor without authority. Yet, no disciplinary action was ever taken for these transgressions.

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The Grand Jury could not find clear evidence that senior management understood how the program worked. Some witnesses felt strongly the program was a valuable community asset that should be reinstated if managed correctly. Other witnesses viewed the program as only benefiting family and friends of select Facilities employees and unavailable to most students within the district. Either way, the summer internship program was a small but shining example of the “what’s in it for me?” culture that permeates OUSD.

## **Board Policies and Actions**

A key responsibility of the Board is to ensure the fiscal solvency of the district. Grand Jurors attended and watched video broadcasts of board meetings and reviewed board meeting agendas and minutes. There was little sense of urgency expressed concerning the district's current fiscal crisis. Given sustained public criticism, inputs from multiple financial experts, and years of conflicting and unreliable financial reporting, this was astonishing.

The Board meeting of November 14, 2018 provides an excellent illustration of how complicated meeting agendas can cause vital issues to be missed or misunderstood. This board meeting had a 57 page agenda with 17 items discussed in closed session, and 87 items on the consent calendar. Included were a wide range of topics such as staff acknowledgments, contract approvals, change orders, memoranda of understanding, and grant awards. Three items of unfinished business followed regarding charter schools. Finally, it was on to new business. It was here, for the first time in this marathon 6½ hour meeting, that the special committee on fiscal vitality presented their report followed by public comments.

## School Based Budgeting

One practice, unique to OUSD, is BP 3150 which grants unusual budgeting and spending autonomy to each school. While school governance teams are supposed to make the budgeting and spending decisions, the task typically falls to the principal at each school who must negotiate and contract for many services and take on the financial management and reporting responsibilities. Financial experts inside and outside the district agree that BP 3150 contributes

significantly to the district's financial instability. Witness testimony estimated that principals spend about 30% of their time on these tasks often without sufficient background and training. Furthermore, the tendency for frequent turnover of principals at some struggling schools has led to consistent overspending with little accountability. Multiple witnesses testified that in addition to the overspending associated with this policy, the burden on the principals (in time and effort) is keeping them from focusing on providing leadership for quality education.

## **Management Practices and a Broken Culture**

The Grand Jury received numerous complaints reporting a systematic breakdown of sound business practices in many areas. As confirmed by witness testimony, there were instances of favoritism, rampant disregard of district policies, disdain for leadership, and a breakdown in the chain of command with staff routinely bypassing their managers to get what they wanted. Many witnesses described a culture of "what's in it for me" rather than "how can we help students thrive."

For example, the Grand Jury learned about what one witness termed an annual "dance" within the custodial and grounds department. Under the leadership of a previous Facilities director,

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the custodial and grounds department consistently had high overtime costs that exceeded their budget. Rather than right-sizing the annual budget to reflect the true cost of services, the department's manager would routinely over-spend on overtime. The manager's supervisor would call the overtime expenses into question. But year after year these criticisms were simply ignored. When the district's finances worsened, the Facilities director ordered that overtime be limited to emergencies and life-safety purposes. Still, the manager knew he could ignore the order by circumventing the chain of command and going directly to the senior business officer (SBO) for permission to cover the

budget overages each year. Witness testimony confirmed "this was the way we always did things at OUSD," adding that the SBO always came up with the money.

This is emblematic of so many of the district's problems. Organizations wishing to stay on track must have meaningful budgeting. Ignoring basic budget principles helped put OUSD in its current financial predicament. As reported by FCMAT and confirmed by the Grand Jury investigation, the district routinely covered these poor practices by inappropriately raiding school bond funds, reserves, self-insurance funds, and developer fees.

The Grand Jury received another complaint alleging that the custodial department hired substitute janitors without using a traditional, formal process through which nearly every other district employee is hired. Since substitute janitors usually comprised the pool of candidates when permanent positions came available, this shortcut effectively circumvented the entire hiring process. A more formal process is necessary to eliminate friendships, nepotism and favoritism in hiring decisions.

If ethical norms are ignored year after year and few, if any, are held accountable for questionable conduct, then a broken culture emerges. For example, an employee reported to district leaders that the employee had uncovered questionable expenses on purchasing ledgers. This included a series of charges totaling just over \$600 for car washes. This raised a red flag because the small department had only one vehicle that was never washed. When asked about this discrepancy, the department's leader responded that these spending decisions "could be improved." No disciplinary action was ever taken. While the money involved is trivial, the perception that district funds could be used to wash personal vehicles represents another example of the broken culture.

In January 2016 OUSD staff signed a bussing contract without competitive bidding for \$45,000 (above the bid requirement threshold of \$10,000 for transportation) with a company owned by a then-trustee of the Alameda County Board of Education, which helps fund teacher training programs and support services for districts throughout the county. The contract was not presented to the OUSD Board until it had expired. Again, staff hired the same contractor for the following year without bidding out the work and paid the contractor \$82,000 for services rendered without ever receiving approval from the Board as required by policy. This is another example of poor business practices and perhaps favoritism in contracting.

Leadership establishes direction and a framework to enable employees to make decisions that are consistent with the "tone at the top." Good leadership inspires an organization to excel. Right choices become a habit and expectations clearly understood. Variances by employees bring negative consequences such as lower performance reviews and even loss of employment. If leadership strays from the highest standards of integrity and performance, the organization inevitably follows.

The Grand Jury found this to be true of OUSD. The Grand Jury heard testimony that the frequent changes in leadership have left the staff "running the show" with everyone working in silos with their own plans, leading to a dysfunctional environment of favoritism and mistrust.

In essence, OUSD's organizational culture is broken and must change. We defined culture as the learned values, behaviors and norms practiced in the workplace. A broken culture can be as subtle as ignoring policy in order to expedite paperwork or as blatant as hiring a relative to work under one's supervision. Allowing or encouraging such poor business practices will cause an organization to lose its way. A detached board and instability in senior management provided the perfect environment for this to happen at OUSD, leading to the profound crisis that the district faces today.

## CONCLUSION

The culture in OUSD's administrative offices must change in order to provide its students with the quality of education they deserve. OUSD is wasting millions of dollars well in excess of its projected annual deficits. Drastic action is required to "right the ship" and this must begin at the top. OUSD needs to bring comprehensive and modern best business practices into district offices and leadership. Staff need regular training inculcating these throughout the organization. If staff refuses to buy into these plans, they must be held accountable. OUSD can no longer afford to be philosophical. Restoring financial stability requires sacrifices throughout the organization. Stringent controls, adherence to contracting procedures, updated policies, and school consolidations are immediate priorities.

Yet staff cannot be expected to buy into these changes if the elected Board continues to lead by reaction. Failure to put into place a strategic plan and have the courage to carry it out will ensure that the district continues to sputter with under-enrolled schools and shoestring budgets. Over one thousand school districts in the state operate competently with the state's current funding structure. Oakland is not one of them even though it receives significantly more funding than the median district in the region. The Board has "kicked every can down the line" and rarely acted with a sense of urgency on many vital issues. The state of the district today is the inevitable result.

This report has detailed repeated examples of mismanagement, favoritism, disregard for authority and poor controls. Policy and procedures are ignored causing one poor decision after another. Moreover, lack of accountability is rampant. Those who have attempted to instill better methods are ignored or quickly pushed aside. Well-intentioned policies such as individual school autonomy or hiring local businesses cannot continue at a premium in the face of dismal finances. OUSD cannot afford them.

The Board and OUSD's senior management have a monumental task in front of them. Full support from the Board, OUSD's leadership, management, and employees, as well as recently added support from the Alameda County Board of Education is needed to make progress possible.

## FINDINGS

### *Finding 19-5:*

The Oakland Unified School District consistently spends near or below the median of the 37-district sample on the needs of students (teachers' salaries, local administration, classroom support, books and materials and pupil services). It spends above and sometimes far above the median on non-classroom administrative, central office staff, contractors and consultants.

**Finding 19-6:**

The Oakland Unified School District's financial problems result from a combination of spending priorities skewed toward non-classroom staff and activities plus poor enforcement of competitive bidding requirements, expensive contracting policies, poor financial discipline and poor business practices.

**Finding 19-7:**

The Oakland Unified School District's Facilities Department does not follow best practices in developing and managing its operating budgets.

**Finding 19-8:**

The Oakland Unified School District's Facilities Department staff frequently ignored direct orders from superiors, often going over their manager's heads.

**Finding 19-9:**

The Oakland Unified School District's Facilities Department has not provided appropriate leadership in managing the capital program for the district. Approved project costs and schedules have not been controlled, required bidding was often avoided through exceptions, and the district's use of the lease-leaseback method has not demonstrated cost savings or resulted in speedy completion of projects.

**Finding 19-10:**

The Oakland Unified School District's 50% local business utilization policy adds significant cost to projects.

**Finding 19-11:**

The Oakland Unified School District has been using Measure J bond funds to pay rent (now over \$12.5 million) for their administration offices at 1000 Broadway. There is no approved plan to relocate the district's central administrative offices to a permanent location, raising serious legal questions about its continued use of bond funds to pay rent at 1000 Broadway.

**Finding 19-12:**

The Oakland Unified School District's culture is broken. It has been described as a district of exceptions with an attitude of "what's in it for me?" These attitudes harm the district whether it is displayed as favoritism, nepotism, or disregard for board policies. Employees trying to change this culture and move the district forward are sidelined and sometimes forced to leave because the proposed changes "aren't the way it's done at OUSD."

**Finding 19-13:**

The Oakland Unified School District's Board policies are out-of-date.

**Finding 19-14:**

The Oakland Unified School District's Board meetings and meeting processes create extraordinary burdens for Board members, the district's management and staff, and the public. Excessively long meetings fail to focus the Board on its priorities and details, which results in a lack of actionable decisions on key issues.

**Finding 19-15:**

The Oakland Unified School District Board has failed in its responsibilities to serve the students of Oakland. Collectively, the Board has not provided leadership and strategic direction to correct the severe financial problems facing the district.

## **RECOMMENDATIONS**

**Recommendation 19-5:**

The Oakland Unified School District must realign its current spending priorities to ensure the focus is on the needs of students (certificated teacher salaries, classroom support, books and materials, pupil services including guidance counseling, social workers, and other critical student support services.)

**Recommendation 19-6:**

The Oakland Unified School District must significantly reduce the number of classified supervisors, administrators and staff and its expenditures for contractors, consultants, and other outside services.

**Recommendation 19-7:**

The Oakland Unified School District must incorporate best practices for financial management, budgeting and control, and if staff is unwilling to adopt these practices, they must be held accountable.

**Recommendation 19-8:**

The Oakland Unified School District must provide training to all personnel to clarify roles, responsibilities and accountability.

**Recommendation 19-9:**

The Oakland Unified School District's Board, Superintendent and Facilities Department must finalize and approve a robust Facilities Master Plan that can be immediately implemented, including proposed school closures, consolidations, and project priorities.

**Recommendation 19-10:**

The Oakland Unified School District's Facilities Department contracts must be publicly bid and broadly advertised, and follow an open, competitive bidding process. Recommendations within the bond program management performance audit regarding facilities program management and change order control should be immediately and fully implemented.

**Recommendation 19-11:**

The Oakland Unified School District Board must review, update and enforce its policies and regulations regarding conflicts of interests, bid exceptions, and school autonomy. The 50% local business utilization requirement should be immediately suspended until the district finances can afford it and until the policy is reevaluated.

**Recommendation 19-12:**

The Oakland Unified School District Board must restructure its board meetings to better align with district priorities, including: move critical topics to the beginning of meetings, aggregate like items for approval, and use the consent calendar to reduce time spent on minor items. Focus needs to be on gaining budget control, financial stability and improving students' access to a great education.

**Recommendation 19-13:**

The Oakland Unified School District must hire an effectiveness coach with the Alameda County Office of Education's approval for the superintendent and the Board as a whole and for individual members to improve effectiveness and transparency, leading to timely board decisions on identified priority items.

**Recommendation 19-14:**

The Oakland Unified School District Board must approve a plan to relocate its administrative offices as soon as possible.

**RESPONSES REQUIRED**

Oakland Unified School District Board of Education

Findings 19-5 through 19-15

Recommendations 19-5 through 19-14

## **REQUEST FOR RESPONSES**

Pursuant to California Penal Code sections 933 and 933.05, the Grand Jury requests each entity or individual named below to respond to the enumerated Findings and Recommendations within specific statutory guidelines:

Responses to Findings shall be either:

- Agree
- Disagree Wholly, with an explanation
- Disagree Partially, with an explanation

Responses to Recommendations shall be one the following:

- Has been implemented, with a brief summary of the implementation actions
- Will be implemented, with an implementation schedule
- Requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a completion date that is not more than 6 months after the issuance of this report
- Will not be implemented because it is not warranted or is not reasonable, with an explanation

## **APPENDIX A**

### **Oakland Unified School District General Fund Financial Analysis**

Table A1 compares OUSD's FY 2018 total General Fund spending in major expense categories against 37 local school districts by activity and object codes. California schools use two methods for accounting their expenditures. Object codes allocate expenses to the type of expense, such as salaries, employee benefits, books and supplies and services. Activity codes organize the same expenses according to the activity using the money, such as education, general administration, and plant services. Both methods of accounting are used in Table A1 to analyze OUSD's spending.

**Table A1 – OUSD Expenses Compared to Local Districts – Per Student, FY 2018**

	Spending Per Student - OUSD	Rank <sup>1</sup>	Spending per Student - Median of Local Districts	Difference	Total OUSD Spending Compared with Median District of Same Size
Total Expenses	\$15,269	7	\$12,017	\$3,252	\$113,302,932
<b>BY ACTIVITY CODE</b>					
Education Expenses	\$8,869	6	\$7,497	\$1,372	\$47,801,852
Instruction Expenses	\$2,868	2	\$1,436	\$1,432	\$49,892,312
Pupil Services	\$710	32	\$897	(\$187)	(\$6,515,267)
Ancillary Services	\$364	1	\$93	\$271	\$9,441,911
General Admin	\$768	14	\$702	\$66	\$2,299,506
Plant Services	\$1,408	10	\$1,196	\$212	\$7,386,292
Other Outgo	\$282	Nm			
<b>BY OBJECT CODE</b>					
Certificated Salaries	\$5,591	14	\$5,231	\$360	\$12,542,760
Classified Salaries	\$2,681	4	\$1,804	\$877	\$30,555,557
Employee Benefits	\$3,919	5	\$2,710	\$1,209	\$42,122,769
Books & Supplies	\$403	22	\$458	(\$55)	(\$1,916,255)
Services & Other	\$2,429	3	\$1,429	\$1,000	\$34,841,000
Other Outgo	\$246	Nm			

Nm = Not Meaningful

<sup>1</sup> Rank out of 37 local school districts

OUSD's General Fund spending of \$15,269 per student ranked 7<sup>th</sup> among the local school districts. The table also shows for each expense category the difference between OUSD's spending per student and the median spending per student in the 37 local school districts. For example, OUSD's spending on education expenses (\$8,869 per student) was \$1,372 higher than

the median spending (\$7,497) in the 37 districts. The number in the far-right column (\$47,801,852) is the difference per student (\$1,372) times OUSD's ADA (34,841). The far-right column shows how much OUSD's total spending for each expense category was over or under the median level for the 37 districts (normalized to OUSD's ADA school population size.)

Examining OUSD's expenditures as percentages (or shares) of total spending gives a clearer picture of the district's spending priorities. Table A2 shows OUSD's percentages of expenses and compares them to the median of the 37 districts. The data show that OUSD's percentages of total spending on expense categories that directly benefit students in the classroom were low compared to the other 37 districts. Certificated salaries (teachers) was 37th (last), pupil services was 36th, education expense was 32nd, books and supplies was 30<sup>th</sup>, general administration was 27<sup>th</sup> (principals and other classroom administrators), and plant services was 23<sup>rd</sup>. In contrast, expenses for central office administration and programs were high. Instruction expenses (central office "classroom-related" expenses and NOT classroom expenses) was 3rd, classified salaries was 6<sup>th</sup>, and services and other was 4<sup>th</sup>. A consistent story emerges that OUSD underspends for teachers, pupil services and classrooms, and overspends on central office administration and staff, "instruction-related" programs, contractors and consultants.

**Table A2 – OUSD Expense Allocations Compared to Local Districts**

	Share of Expenses – OUSD	Share of Expenses – Median of Local Districts	Rank <sup>1</sup>
<b>BY ACTIVITY CODE</b>			
Education Expenses	59%	63%	32
Instruction Related Expenses	19%	12%	3
Pupil Services	5%	8%	36
Ancillary Services	2%	1%	1
General Administration	5%	6%	27
Plant Services	9%	10%	23
<b>BY OBJECT CODE</b>			
Certificated Salaries	37%	45%	37
Classified Salaries	18%	15%	6
Employee Benefits	26%	23%	6
Books & Supplies	3%	4%	30
Services & Other	16%	12%	4

<sup>1</sup> Rank out of 37 local school districts

Table A3 highlights OUSD's expenditures in four selected expense categories. Spending on books and supplies were 26% below the statewide average. Classified supervisors and administrative salaries were over six times the statewide average. Professional services and consulting, and other operating expenses were nearly three times the statewide average, and communications expenses were 3.5 times the statewide average.

**Table A3 – Selected OUSD Expense Categories Compared to State of California Average, FY 2018**

Expense Category	Total OUSD Expense	OUSD \$ per ADA	Statewide Average \$ per ADA	OUSD Variation from State Average
Books and Supplies	\$14,030,706	\$403	\$559	-26%
Classified Supervisors and Admin Salaries	\$31,628,739	\$908	\$146	522%
Professional/Consulting Services and Operating Expenditures	\$55,742,662	\$1,600	\$535	199%
Communications	\$4,390,814	\$126	\$36	251%